NiSource Corporate Services

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June 28, 2006

VIA ELECTRONIC FILING AND OVERNIGHT DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 06-36

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), are Bay State's responses to the complete First Set of Information Requests issued in this docket by the Office of the Attorney General – AG-1-1 through AG-1-19.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Patricia M. French

cc: Julie Howley Westwater, Esq., Hearing Officer
Jamie M. Tosches, Esq., Office of the Attorney General
Service List (Electronic Service per the Ground Rules)

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D.T.E. 06-36

Date: June 28, 2006

Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-1: Please refer to Exhibit ("Exh.") BSG-1 at 3, lines 1-5. Please define "operational risks."

RESPONSE: Operational risks as referenced in Exhibit BSG-1 at 3 are risks associated with inadequate distribution capacity to maintain service to all of the Company's firm customers. System reliability would be jeopardized due to the under-delivery of gas supply into Bay State's distribution system.

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AG 1-2: Please refer to Exhibit ("Exh.") BSG-1 at 3, lines 1-5. Please identify the "potential harm" that grandfathered overtakes could cause to Bay State Gas Company's ("Bay State" or "Company") customers.

RESPONSE: Overtakes by grandfathered customers could cause a disruption of service to Bay State's customers. A disruption of service would typically include a loss of space and water heating for residential and Commercial and Industrial ("C&I") customers to a loss of a production of goods for C&I customers. Such loss of service could result in damage to property and/or products leading to significant cost impacts, as well as jeopardizing the health, safety, and welfare of the public.

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AG 1-3: Please refer to Exhibit ("Exh.") BSG-1 at 3, lines 1-5. Please identify the "potential harm" that grandfathered overtakes could cause to Bay State Gas Company's ("Bay State" or "Company") shareholders.

RESPONSE: As stated in response to AG-1-2, overtakes by grandfathered customers could cause a disruption of service to Bay State's firm customers. Such a disruption could cause harm to customers ranging from loss of product and damage to property to impacting the health, safety and welfare of the public. Affected parties could attempt to hold Bay State liable for the harm caused by a disruption of its firm service, exposing the Company to litigation risk and expense. In addition, the Company's reputation as a reliable supplier of natural gas would be damaged, which could cause a long-term impact of Bay State's ability to maintain and/or grow its customer base for financial stability.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-4: Please refer to Exh. BSG-1 at 11-12. State whether the overtake events caused any harm to Bay State's customers.

A. If the overtakes caused harm, describe the harm and how it occurred.
B. If the overtakes did not cause harm, explain why.

RESPONSE: The overtake events over the period of November 2001 through December 2005 did not cause any harm, as the Company did not experience a design day during this period and was able to maintain uninterrupted service to its firm customers. However, having the available supply on those overtake days essentially was good fortune rather than planned coverage. Bay State believes that to count on or expect such good fortune is not consistent with prudent system planning.

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Responsible: Francisco C. DaFonte, Director, Energy Supply Services

AG 1-5: Please refer to Exh. BSG-1 at 9, lines 9-21. Identify the risks that Bay State's own system supply service presents.

RESPONSE: The risk presented by Bay State's system supply service is limited to force majeure events such as those experienced over the past 5 years such as (a) hurricanes in the Gulf of Mexico, (b) pipeline compressor outages on upstream pipelines serving Bay State, and (c) the prohibition of LNG shipment delivery due to a national security threat. Such events could cause (a) a shut-in of firm natural gas supply; (b) a disruption of upstream firm capacity; and (c) the unavailability of firm supplemental gas supplies. However the risk of such events causing Bay State to under-deliver to meet its service obligations to its firm customers is mitigated by the Company's diverse and flexible resource portfolio. Bay State's portfolio is currently comprised of over a dozen primary separate capacity paths. The Company's portfolio consists of natural gas supply sources and firm capacity from the Gulf of Mexico, the Chicago Hub (itself having access to Golf Coast, Mid-Continent, Rockies and Western Canadian supply basins) and Western and Eastern Canada, as well as underground storage gas from Michigan, Pennsylvania, West Virginia and New York. The Company also has on-system LNG and propane assets not available to grandfathered customers and their suppliers. This diversification typically allows the Company to work around a problem caused by a force majeure event. Nonetheless, some level of risk will always exist.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-6: Please refer to Exh. BSG-1 at 11-12. Provide the reason for the Company's choice to reserve thirty percent as the contingency reserve instead of some higher percentage when the Company's data indicated that the past overtakes exceeded thirty percent.

RESPONSE: In Bay State's business judgment, and based on its expertise in the industry as well as its knowledge of its portfolio, 30 percent was determined to be a reasonable planning standard and appropriately balances reliability and cost considerations. Such judgment also takes into account that the Company's proposed provisions in Section 13.13.2 of the Distribution and Default Service Terms and Conditions, where a Customer who overtakes by greater than 30% shall lose its capacity exemption status, should help limit the incidences of overtakes of greater than 30%.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-7: Refer to Exh. BSG-1 at 11-12.

i. Please explain how this analysis differs from that used to arrive at the ten percent contingency reserve in D.T.E. 02-75, and;
ii. Please state the reason(s) for Bay State's use of two different analytical methods.

RESPONSE: The difference in analysis and justification for the two methods rests in Bay State's greater understanding of the issue and the regulatory response to the issue in examining the alternatives in the last four years since D.T.E. 02-75 was issued. While the ten percent contingency reserve proposed in D.T.E 02-75 attempted to address the reliability need for any circumstance that may arise, and which the design day standard does not capture, the Company had acknowledged at the time, and continues to recognize, that the system reliability risk is primarily caused by the grandfathered load on the system. Bay State believes that a thirty percent planning standard related only to the grandfathered customer load is more closely linked to the harm that the planning standard is designed to address. This means it is a more closely tailored and therefore more reasonable response to the problem.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-8: Please explain Bay State's reasons for proposing a thirty percent contingency reserve instead of the ten percent contingency reserve proposed in D.T.E. 02-75. Provide in this response all supporting analysis and documentation.

RESPONSE: Please see Bay State's response to AG-1-7, as well as the documentation and testimony accompanying Bay State's initial filing in this matter.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-9: Describe the capacity procurement process that Bay State will use to acquire capacity for grandfathered customers, and state whether the Company will procure capacity for each individual grandfathered customer, for each division, or in some other manner.

RESPONSE: Bay State will incorporate the need for firm capacity to satisfy 30% of grandfathered design day load in its Forecast and Supply Plan process filed with the Department. Capacity procurement will not be made for individual grandfathered customers, but rather capacity to meet this reliability requirement will be procured as part of its resource plan to satisfy total system requirements. Please also see Bay State's response to DTE 1-22.

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AG 1-10: Please refer to Exh. BSG-1 at 9, lines 9-21; BSG-1 at 14. Explain in detail the methods that Bay State will use to distribute costs to grandfathered customers through the Company's Cost of Gas Adjustment ("CGA").

RESPONSE: Bay State has proposed to charge all grandfathered customers at a uniform per unit cost calculated as the Capacity Exempt Customer Reliability Charge (CECRC). Such a charge will reflect costs based on 30% of grandfathered design day requirements times the average cost of system capacity. See Attachment JAF-3 and Appendix C of Attachment JAF-4.

The revenues generated from the application of the CECRC will be credited to the system Peak Period demand costs charged through the CGA. In Section 6.0, Peak Demand Factor Formula, of the proposed CGA Clause, such revenues shown as CECRCR are deducted from Peak Period forecast demand costs. Further, in Section 9.0 Reconciliation Adjustments, in subsection (1) (a) vii, it provides for the crediting of these revenues to the actual allowable demand costs included in the CGA.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-11: Explain how the Company determined the methods that Bay State will use to distribute costs to grandfathered customers through the Company's Cost of Gas Adjustment ("CGA"). Include in this response all evaluations, studies, reports, correspondence, e-mails, notes, presentation materials, and work papers related to this determination.

RESPONSE: The Company determined that it was appropriate to charge grandfathered customers for the level of capacity needed to address the reliability concern associated with their load, and that such load would be charged at the system average capacity cost, the same cost as charged non-grandfathered customers for the capacity assigned to them to meet their requirements. Please also see Bay State's response to AG 1-10.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-12: Identify if and why the Company believes that non-grandfathered customers will not pay for the thirty percent contingency reserve. Include in this response all evaluations, studies, reports, correspondence, e-mails, notes, presentation materials, and work papers related to these methods.

RESPONSE: Non-grandfathered customers (including firm sales customers) will not pay for the system planning standard because those costs will be recovered from grandfathered customers. Non-grandfathered transportation customers, or suppliers on behalf of these customers, will continue to pay for the capacity assigned to them to meet their peak day use. Note that because in the beginning, such planning standard will be satisfied from the existing portfolio, net capacity costs charged to firm sales customers through the Cost of Gas Adjustment will actually be lower than otherwise.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-13: Identify any costs for the reserve capacity that non-grandfathered customers may or would bear under the Proposal.

RESPONSE: Non-grandfathered customers would not bear any reserve capacity costs under the Company's proposal.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-14: Please refer to Exh. BSG-1 at 11, line 3-10. Explain in detail the process Bay State will use to collect data to establish unauthorized overtakes on a customer-specific basis.

RESPONSE: The referenced line and page number of Exh. BSG-1 does not discuss establishing the level of unauthorized overtakes on a customer specific basis. It discusses Bay State's past, and thorough, analysis of supply under-deliveries or supplier failures. That analysis will continue in the future.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-15: Please refer to Exh. BSG-1 at 11, line 3-10. Will Bay State use this data in its cost allocation methodology and if not, then explain why not.

RESPONSE: The phrase "cost allocation methodology" is vague. Bay State allocates costs for many purposes and under numerous cost recovery scenarios. The data referenced was used to determine, in part, the proposed 30% of grandfathered design day requirements. The application of the 30% to grandfathered requirements is the basis for assigning system capacity costs to this group of customers.

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Responsible: Joseph A. Ferro, Manager Regulatory Policy

AG 1-16: Did the Company survey or discuss its proposal with the grandfathered customers and/or their suppliers? If yes, please provide a detailed account of the discussions. Include in this response all evaluations, studies, reports, correspondence, e-mails, notes, presentation materials, and work papers related to these discussions.

RESPONSE: The incremental planning standard is a result of the Department's mandate in D.T.E. 02-75-A and D.T.E. 05-27. The proposal was discussed with suppliers and grandfathered customers following Bay State's filing with the Department on March 31, 2006. Please also see response to DTE 1-11.

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AG 1-17: Did the Company consider a voluntary plan in which the Company would purchase capacity solely for grandfathered customers interested in protecting themselves from curtailment by the Company based on underdelivery? If yes, why did the Company reject the plan? If not, then would the Company consider a voluntary plan? Include in this response all evaluations, studies, reports, correspondence, e-mails, notes, presentation materials, and work papers related to the consideration of such a plan.

RESPONSE: The Company is charged with protecting system integrity and reliability and ensuring continuing service to its firm customers and it considered alternatives that would support that objective at the lowest reasonable cost. Bay State does not know what the Attorney General means by a "voluntary plan" and how a plan to protect a grandfathered customer from curtailment would protect service to the Company's firm sales and non-grandfathered customers.

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AG 1-18: Please illustrate the mechanics of the Company's proposal by using actual volumes and hypothetical costs for 2004/05 with reconciliation in 2005/06. Include all supporting calculations, workpapers and assumptions. Please provide the calculations in the form a working Excel spreadsheet model.

RESPONSE: The Company's proposal involves charging a per therm unit charge to all grandfathered customers for the cost of capacity associated with 30% of grandfathered design day, and crediting such costs through the CGA. As an example, presented in Attachment JAF-3, using current (winter 2005-06) grandfathered design day and system average cost of capacity, the Company calculated total CECRC costs to be recovered of $1,579,082. These costs will be considered actual costs starting in November of the Nov – Oct recovery period, and assigned to each month evenly (1/12 of annual costs). The monthly assigned costs will be compared to the actual collections (GF throughput x CECRC) each month, the difference of which will be the monthly under/over collection. The monthly actual costs will be credited to firm sales customers through the CGA mechanism. At the end of the annual recovery period any under or over collection of the $1,579,082 will be reflected in the derivation of the next year's CECRC. (See Line 8 of Attachment JAF-3.)

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AG 1-19: Did the Company consider a stand-alone program that would not affect customers other than the grandfathered customers (one in which the Company would procure the capacity on a completely separate basis for the proposed program and then charge only the grandfathered customers 100% of the cost with a credit for revenues received for any of that specific capacity that the Company releases). If yes, why did the Company reject the program? If not, then would the Company consider such a program? Include in this response all evaluations, studies, reports, correspondence, e-mails, notes, presentation materials, and work papers related to the consideration of such a program.

RESPONSE: The Company believes that integrating all its resources to meet all its requirements (firm sales, non-grandfathered and capacity associated reliability needs in connection with grandfathered load) allows for the most effective means of planning for and procuring its resources. Moreover, the Company's incremental planning standard, in its judgment, produces the greatest reduction in reliability risk at the lowest reasonable cost to grandfathered customers. Bay State believes the planning standard "affects" other customers only insofar as it provides increased security and reduces the risk of system instability.